

STATE OF NEVADA
GAMING CONTROL BOARD
INTERNAL AUDIT COMPLIANCE CHECKLISTS

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Objectives

NRS 463.157 provides for the adoption and use of internal audits, which operate through the observation, testing and evaluation of controls over a licensee's internal fiscal affairs. These include, but are not limited to, provisions for the safeguarding of its assets and revenues, especially the recording of cash and evidences of indebtedness; and the provision of reliable records, accounts and reports of transactions, operations and events.

In connection with the adoption of Version 4 of the Internal Audit Minimum Internal Control Standards (MICS) and Version 3 of the 6A MICS pursuant to Regulations 6.090 and 6A.060, respectively, the Board is publishing supplemental checklists, programs and guidelines for use in satisfying those standards.

The primary objective of these supplemental checklists, programs and guidelines is to provide guidance on what is necessary to comply with the internal audit sections of the MICS. A secondary objective is to provide some consistency among internal audit departments and CPA's performing internal audit work by standardizing the document examination sample sizes and the scope of the work to be performed. Standardized requirements ensure that all internal audit departments are performing a minimum amount of work. Additionally, by standardizing the formats, the Board is able to review workpapers in a more efficient and time saving manner without having to adjust to the myriad of individual/firm styles.

Each section contains a walk-through program and a testing program. Although the checklists are not to be considered all encompassing, they address regulations adopted through May 25, 2000. As the information changes due to the adoption of new regulations and/or statutes, you are expected to develop your own walk-through and/or testing procedures until updated versions of the checklists are distributed. Additionally, these Guidelines are not intended to limit the internal auditor to the performance of only the above-specified procedures. If additional procedures are performed (e.g., expanded document testing), the results should be included in the internal auditor's report.

A companion document to these checklists is a terminology and general audit information guide entitled "Gaming Audit Procedures Manual" ("GAP" manual). This manual contains audit tips and current Board policies/interpretations that may be referenced as compliance work is performed.

Applicability

All nonrestricted Group I licensees, as defined in Regulation 6.010(5), are subject to these additional requirements and must provide for an internal audit function. For licensees

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who are not required to maintain a separate internal audit department, personnel who are independent with respect to the departments/procedures being examined must perform the internal audit work.

A separate internal audit department, whose primary function is performing internal audit work and who is independent with respect to the departments subject to audit, must be maintained by licensees who meet either of the following criteria:

1. A single licensee having gross gaming revenue in excess of \$10 million for the 12 months ended June 30; or
2. Two or more licensees with essentially common ownership and/or management having combined gross gaming revenue in excess of \$10 million for the 12 months ended June 30.

When determining the combined gross gaming revenue, include only those nonrestricted locations classified as Group I licensees. For example, the following three licensees have essentially common ownership and management:

(Property 1) A Group I with gross gaming revenues of \$6 million;

(Property 2) A Group I with gross gaming revenues of \$3.5 million;

(Property 3) A Group II with gross gaming revenues of \$2 million.

The Group I licensees (Properties 1 and 2), with total combined revenues of \$9.5 million, would not be required to maintain a separate internal audit department.

Additionally, all 6A licensees, as defined in Regulation 6A.010(9), must provide for an internal audit function and must perform the required Regulation 6A - Currency Transaction Reporting procedures. Generally, a 6A licensee has annual gross gaming revenues of over \$10 million **and** table games statistical win of over \$2 million. The Chairman may also designate 6A licensee status.

Individuals Who Can Perform the Internal Auditor Function

As part of the internal auditor's walk-through procedures, the auditor is required to complete the CPA MICS Compliance Checklists. These checklists must be separately completed by both the internal auditors and the CPA **if** the CPA does **not** rely on the

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internal audit department as allowed in the CPA MICS Compliance Reporting Requirements Guidelines. If the CPA does rely on the internal audit department, another CPA is engaged to perform the internal audit procedures, or a CPA is engaged to perform both the internal audit procedures and the CPA compliance procedures, the checklists only need to be completed as required for the internal audit function. The table games and slot drop/count observations must still be performed by the CPA as required in the CPA MICS Compliance Reporting Requirements Guidelines and do not take the place of any of the drop/count procedures required in the Internal Audit Compliance Checklists. Additionally, unannounced observations must still be performed by the CPA as required in the CPA 6A MICS Compliance Reporting Requirements Guidelines and do not take the place of any of the procedures required in the Internal Audit Compliance Checklists.

For those licensees that are required to maintain a separate internal audit department whether the internal audit procedures are performed by an in-house internal audit department or by an independent accountant, the auditor must be independent with respect to the departments subject to audit and must have:

1. A minimum of 6 months gaming accounting/auditing experience, or
2. A minimum of 6 months of accounting/auditing experience with a CPA firm,
or
3. Supervision provided by an auditor who meets the above requirements.

In certain limited circumstances an internal audit department may not satisfy the above criteria. For good cause, upon written request by a licensee, the Chairman or his designee may waive any of the preceding requirements. The above experience requirements are inapplicable to licensees that are **not** required to maintain separate internal audit departments. In addition to the above experience requirements, individuals performing 6A internal audits must also be trained pursuant to 6A MICS #64.

Required Procedures

The internal audit department will be required to:

1. Complete the applicable internal audit compliance walk-through procedures checklist and perform walk-throughs, observations and compliance testing. A separate checklist must be completed for each gaming revenue center, for all areas subject to casino entertainment tax, cage and credit, branch offices, EDP department, Regulation 6A, and other miscellaneous regulations. These checklists are used to determine if the licensee's procedures in effect and the documents in use comply with the MICS and applicable regulations.

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Walk-through checklists must be completed twice during each fiscal year (once in each six-month period, not in consecutive months) for the slot and table games departments, in each fiscal quarter for 6A (performed on all three different shifts, rotated among departments/contacts) and every other year for branch offices, when applicable. Walk-through checklists for all other areas need only be completed annually.

2. Use the applicable internal audit compliance testing procedures checklist and perform substantive testing of each gaming revenue center, for areas subject to casino entertainment tax, cage and credit, biennial branch office reviews, EDP department, and tests for compliance with gaming regulations including 6A. These checklists are used to determine if the licensee's recording and reporting procedures are adequate and accurate.

There is a separate program that covers miscellaneous compliance testing for Regulations 3.100 (employee report), 5.160 (surveillance standards), 6.040 (accounting records), 6.050 (records of ownership), 6.060 (record retention), 6.110 (proper reporting of revenue and slot hopper load analysis), 6.150 (minimum bankroll requirements), 8.130 (transaction reports) and 12.070 (redemption and disposal of discontinued chips and tokens), as well as license conditions, compliance committees and the Internet.

Testing procedures must be completed twice during each fiscal year (once in each six-month period, not in consecutive months) for the slot and table games departments, for each fiscal quarter for Regulation 6A which may be done at any time of the year ("Departmental Testing Procedures" checklist only) and every other year for branch offices, when applicable. Testing procedures for all other areas need only be completed annually, including the Regulation 6A "Specialist Testing Procedures" checklist.

Note: Photocopies of the checklists provided by the Board may be used. However, if your checklists are generated from Board-issued disks or your computer files, the format must be identical to that originally issued by the Board. A change from portrait to landscape is not considered a change in format. When modifying checklists due to regulatory changes or the addition of explanatory notes, the acceptable method will be to note the change following the question/procedure (which remains worded as issued by the Board). Although hard copies of the checklists are expected, the Board may grant approval for other formats.

Do not use checklists for areas that are inapplicable to your operation. For example, if you do not offer keno, discard the keno checklists; do not mount unnecessary checklists

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in your workpapers and mark them “not applicable”. If you are not a 6A licensee as defined in Regulation 6A.010(9), discard the Regulation 6A - Currency Transaction Reporting checklists. Similarly, if you do not qualify for the payment of entertainment tax as specified in NRS 463.401(2), discard the Entertainment Department checklists.

Planning and Completion

1. All questions on each applicable checklist must be completed. Workpaper references should be provided for all exceptions and for the results obtained during document testing (unless the question can be answered by a note in the “W/P Reference/Comments” column).
2. Observations must be performed on an unannounced basis and, whenever possible, are to be performed without the employees being aware that their activities are being observed. Such observations may be performed from the surveillance room when applicable. The internal auditor or the independent accountant engaged to perform internal audit work should not provide, in any manner, advance information (including days, weeks, months or quarters) of upcoming observations to officers, directors or any other licensee employees. Advance arrangements should be made to allow for prompt access to the count room by internal auditors or independent accountants (e.g., names of personnel who will be given access, identification rules, introduction letter requirements, or other such procedural details). Such arrangements, if necessary, should be made no later than 60 days into the licensee’s business year so as not to limit the time period in which unannounced observations may be performed. Any subsequent updates to these arrangements (e.g., personnel updates) should be made on a regular basis (e.g., quarterly) to avoid alerting the gaming operation of an upcoming observation.

If the drop teams are unaware of the drop observations and the count observations would be unexpected, the hard count and soft count rooms may be entered simultaneously. Additionally, if the slot currency acceptor count begins immediately after the table games count in the same location, by the same count team, and using the same equipment, the currency acceptor count observation may be conducted on the same day as the table games count observation. Observations may be performed live using surveillance equipment. However, because the auditor must observe the count until the monies are transferred to the vault/cashier, any change in location (i.e., from the count room to the surveillance room) will necessitate viewing the surveillance tapes for the time period during which the auditor was in transit.

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3. The results of internal audit work should be reported directly to management or ownership personnel who are independent of the departments being audited, or to the board of directors or its audit committee, whichever is applicable.
4. All material exceptions resulting from internal audit work are investigated and resolved with the results of such being documented.
5. Follow-up observations and examinations are performed to verify that corrective action has been taken regarding all instances of noncompliance cited by internal audit, the Gaming Control Board and/or the independent accountant. The verification is performed within six months following the date of notification.
6. Two copies of the internal auditor's report summarizing all instances of noncompliance and management responses must be submitted to the Board within 120 days after the end of the first 6 months of the business year and must include all work done in the first 6 months. Noncompliance noted in the second half of the year (also two copies) must be submitted to the Board within 120 days after the end of the business year *unless* they are to be included in the CPA's compliance report, in which case separate reporting is not required. Note that the reports must denote the regulation or Minimum Internal Control Standard number for which noncompliance was noted and must include the gaming revenue test dates.
7. All completed checklists and supplemental workpapers must be retained for five years.

Upon written request by a licensee, the Chairman or his designee may provide written approval to waive the performance of one or more areas of review for a specific year due to the occurrence of unusual circumstances or to extend report submission deadlines. Such approval is at the sole discretion of the Board. For new licensees that have been in operation for three months or less by the end of their business year, performance of these internal audit procedures is not required for the partial period. The Board classifies new licensees as Group I or Group II based on their first-year gross gaming revenue projections. Such initial classification should be used when determining whether recently licensed entities are required to maintain a separate internal audit department and/or comply with the Internal Audit MICS.

Please contact the Board's Audit Division in Reno or Las Vegas if you require clarification of the preceding guidelines.